

Financial Statements of

**THE GRAND THEATRE**

And Independent Auditors' Report thereon

Year ended June 30, 2020





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## INDEPENDENT AUDITORS' REPORT

To the Directors of The Grand Theatre

### ***Opinion***

We have audited the financial statements of The Grand Theatre (the "Entity"), which comprise:

- the statement of financial position as at June 30, 2020
- the statement of operations and net assets, and expenses for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at June 30, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



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In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

London, Canada

December 4, 2020

# THE GRAND THEATRE

## Statement of Financial Position

June 30, 2020, with comparative information for 2019


	2020	2019
<b>Assets</b>		
Current assets:		
Cash	\$ 88,373	\$ 1,332,294
Accounts receivable (note 2)	1,128,124	772,348
Current portion of receivable from The Grand Theatre Foundation (note 3)	170,679	124,957
Prepaid expenses	181,469	281,941
Receivable from 2641612 Ontario Inc. (note 4)	-	73,841
	1,568,645	2,585,381
Receivable from The Grand Theatre Foundation (note 3)	-	30,782
Investments (note 4)	682,295	669,462
	\$ 2,250,940	\$ 3,285,625

## Liabilities and Net Assets


Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 134,136	\$ 250,433
Deferred revenues	719,577	1,575,956
Due to 2641612 Ontario Inc. (note 4)	3,339	-
	857,052	1,826,389
Payable to The Grand Theatre Foundation (note 3)	813,883	813,883
Net assets:		
Unrestricted	580,005	645,353
Commitments (note 9)		
Contingency (note 10)		
Impact of COVID-19 pandemic (note 12)		
	\$ 2,250,940	\$ 3,285,625

See accompanying notes to financial statements.

On behalf of the Board:

  
CHRIS JACKMAN  
BOARD PRESIDENT

Director

  
EXECUTIVE DIRECTOR

Director

## THE GRAND THEATRE

### Statement of Operations and Net Assets

Year ended June 30, 2020, with comparative information for 2019

	2020	2019
Revenues:		
Productions	\$ 2,713,329	\$ 4,522,239
Fundraising (notes 3 and 7)	1,131,950	1,692,580
Grants (note 8)	1,127,309	1,050,972
Other	301,753	478,487
	<u>5,274,341</u>	<u>7,744,278</u>
Expenses (Statement)	<u>6,115,273</u>	<u>7,709,466</u>
Excess (deficiency) before the undernoted items	(840,932)	34,812
Business interruption insurance proceeds	504,754	-
Canada Emergency Wage Subsidy grant	270,830	-
	<u>775,584</u>	<u>-</u>
Excess (deficiency) of revenues over expenses	(65,348)	34,812
Net assets, beginning of year	645,353	610,541
Net assets, end of year	<u>\$ 580,005</u>	<u>\$ 645,353</u>

### Statement of Expenses

Year ended June 30, 2020, with comparative information for 2019

	Salaries, benefits and fees	Supplies and expenses	2020 Total	Salaries, benefits and fees	Supplies and expenses	2019 Total
Marketing and fundraising	\$ 291,807	\$ 354,414	\$ 646,221	\$ 408,459	\$ 574,776	\$ 983,235
Administration	356,084	168,783	524,867	358,905	249,617	608,522
Productions	2,700,235	732,772	3,433,007	3,212,924	1,205,086	4,418,010
Royalties	302,691	-	302,691	423,470	-	423,470
Front of house, box office and concessions	324,254	232,034	556,288	348,098	276,609	624,707
Facility operations	127,085	525,114	652,199	147,952	503,570	651,522
	<u>\$ 4,102,156</u>	<u>\$ 2,013,117</u>	<u>\$ 6,115,273</u>	<u>\$ 4,899,808</u>	<u>\$ 2,809,658</u>	<u>\$ 7,709,466</u>

See accompanying notes to financial statements.

# THE GRAND THEATRE

## Statement of Cash Flows

Year ended June 30, 2020 with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenues over expenses	\$ (65,348)	\$ 34,812
Items not involving cash:		
Equity in earnings of investee entity	(12,833)	(7,667)
Changes in non-cash operating working capital:		
Accounts receivable	(355,776)	(179,413)
Prepaid expenses	100,472	(61,500)
Due to/from 2641612 Ontario Inc.	77,180	(73,841)
Accounts payable and accrued liabilities	(116,297)	41,322
Due to/from The Grand Theatre Foundation	(14,940)	(205,340)
Deferred revenues	(856,379)	(266,017)
	(1,243,921)	(717,644)
Financing activities:		
Advance from the Grand Theatre Foundation	-	813,883
Investing activities:		
Net change in investments	-	(661,795)
Received from The Grand Theatre Foundation	-	50,000
	-	(611,795)
Decrease in cash	(1,243,921)	(515,556)
Cash, beginning of year	1,332,294	1,847,850
Cash, end of year	\$ 88,373	\$ 1,332,294
Supplemental cash flow information:		
Investment income received	\$ 117,202	\$ 102,057

See accompanying notes to financial statements.

# THE GRAND THEATRE

## Notes to Financial Statements

Year ended June 30, 2020

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The Grand Theatre (the "Theatre") is incorporated without share capital under the laws of Ontario. The principal activity of the Theatre is the production of plays which was halted in March 2020 as a result of the COVID-19 pandemic (see Note 12). The Theatre is responsible for all production, administrative and operating costs which are primarily financed by production revenues, grants and fundraising activities.

### 1. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian accounting standards for Not-for-Profit Organizations in Part III of the CPA Canada Handbook - Accounting. Significant accounting policies adopted by the Theatre are as follows:

#### (a) Revenue recognition:

The financial statements of the Theatre are maintained in accordance with the deferral method of accounting for contributions.

Unrestricted contributions are recognized as revenues when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted contributions are recognized as revenues in the year in which the related expense is incurred.

Operating grants are recorded as revenues in the period to which they relate. Grants approved, but not received, at the end of an accounting period are accrued.

Revenues from productions are recognized when plays are delivered.

Other revenues include concession sales, shop sales, advertising and room rentals, and are recognized when the services are provided or the goods are sold.

#### (b) Prepaid expenses:

Certain expenses relating to productions in the following year are deferred and recorded as expenses in that year.

#### (c) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year. Contributed services are not recognized in the financial statements because of the difficulty of determining the fair value.



# THE GRAND THEATRE

Notes to Financial Statements (continued)

Year ended June 30, 2020

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## 1. Significant accounting policies (continued):

### (d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Theatre has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Theatre determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Theatre expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

### (e) Investments:

The equity method of accounting is used for investments in companies over which the Theatre has full control. Under this method, the investment is initially recorded at cost, and the Theatre reflects the net income of the investee company in the statement of operations and increases its book value in the investee company by the same amount. Dividends and other distributions are recorded as a reduction in the book value of the investee company.

### (f) Use of estimates:

The preparation of financial statements, in conformity with Canadian accounting standards for Not-for-Profit Organizations, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

# THE GRAND THEATRE

Notes to Financial Statements (continued)

Year ended June 30, 2020

## 2. Accounts receivable:

	2020	2019
Business interruption insurance	\$ 504,754	\$ -
Box office	283,187	355,180
The City of London	250,000	250,000
Other	90,183	167,168
	<u>\$ 1,128,124</u>	<u>\$ 772,348</u>

The Theatre considers all receivables to be collectible and has not recorded an allowance for doubtful accounts.

## 3. The Grand Theatre Foundation:

The Theatre exercises significant influence over The Grand Theatre Foundation (the "Foundation") by virtue of its ability to appoint some of the Foundation's Board of Directors. The Theatre uses the property owned by the Foundation and the resources of the Foundation are devoted to the operations of the Theatre. The Foundation is incorporated under the laws of Ontario without share capital and is a registered charity under the Income Tax Act. The net assets and results from operations of the Foundation are not included in these financial statements since the Theatre does not control the Foundation. Separate audited financial statements of the Foundation are also prepared.

Related party transactions include an amount of \$215,000 (2019 - \$209,662), representing rental charges based on ticket sales volume, that has been paid to the Foundation and which helps to support future capital spending. The amount, which is incurred in the ordinary course of business, is recorded with facility operations expense at the exchange amount, being the amounts agreed to by the two parties. As at June 30, 2020 the Theatre has an amount payable for rental charges to the Foundation of \$59,733 which has been netted against the current receivable. (2019 - \$nil).

The Theatre also provides certain payroll services on behalf of the Foundation. During 2020, the Theatre paid \$151,782 (2019 - \$139,668) of salaries and benefits on behalf of the Foundation, of which \$833 was outstanding as a current receivable as at June 30, 2020 (2019 - \$35,380).

An agreement dated October 30, 2009, was reached between the Theatre and the Foundation concerning the payment terms for the receivable owing from the Foundation at that time. Under this agreement, the Foundation will make minimum annual payments of \$50,000 to the Theatre. The entire balance of \$80,782 remaining with respect to this agreement has been classified as a current receivable as at June 30, 2020.

During 2020, the Foundation donated \$101,308 to the Theatre to help fund operations (2019 - \$200,000), of which \$101,308 was outstanding as a current receivable as at June 30, 2020 (2019 - \$39,577).

# THE GRAND THEATRE

Notes to Financial Statements (continued)

Year ended June 30, 2020

### 3. The Grand Theatre Foundation (continued):

During 2020, the Theatre paid \$47,489 on behalf of the Foundation for costs related to the Theatre renovation project, of which \$47,489 was outstanding as a current receivable as at June 30, 2020.

During 2019, the Foundation loaned \$813,883 to the Theatre. As at June 30, 2020, no amounts had been repaid. The loan is provided interest-free, and there are no set terms of repayment. The Foundation has confirmed it will not request repayment prior to July 2, 2021, and as such, the entire balance has been recorded as long-term.

### 4. Investment:

On August 20, 2018, the Theatre acquired 100% of the outstanding common shares of 2641612 Ontario Inc. for \$661,795. 2641612 Ontario Inc. is a for-profit company that holds the Neptune property. This investment is accounted for using the equity method. The following table summarizes the financial position and results from operations for 2641612 Ontario Inc. for the period of July 1, 2019 to June 30, 2020:

	2020	2019
Total Assets	\$ 795,598	\$ 803,142
Total Liabilities	113,303	133,680
Total Shareholders' Equity	\$ 682,295	669,462
Total Revenue	\$ 81,600	68,000
Total Expenses	68,767	60,333
Net Income	\$ 12,833	7,667
Operating cash flows	\$ -	12,475
Investing cash flows	-	(12,475)
Total cash flows	\$ -	\$ -

The Theatre rents warehouse space from 2641612 Ontario Inc. for \$6,800 per month. During the year, the Theatre paid \$81,600 in rent to 2641612 Ontario Inc. At June 30, 2020, the Theatre had a payable due to 2641612 Ontario Inc. for \$3,339 (2019 - receivable of \$73,841).

The equity pick-up of \$12,833 is included in other revenue.

# THE GRAND THEATRE

Notes to Financial Statements (continued)

Year ended June 30, 2020

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**5. Accounts payable and accrued liabilities:**

Included in accounts payable and accrued liabilities are government remittances payable of \$2,431 (2019 - \$154,988), which includes amounts payable for HST and payroll related taxes.

**6. Credit facility:**

Under its agreement with the Libro Credit Union, the Theatre has an available operating credit facility to a maximum of \$750,000. At year end no amount was drawn on this facility (2019 - \$nil).

**7. Endowment funds:**

The Theatre has established permanent endowment funds at London Community Foundation and the Ontario Arts Council Foundation. The Theatre can only access the earnings on the investment of the funds as of December 31 and March 31, respectively, of each year. As at June 30, 2020, the funds had a balance of \$2,804,005 (2019 - \$2,940,766) to generate income for the Theatre. During the year, the Theatre received \$117,202 (2019 - \$102,057) of investment income from the endowment funds. Investment income earned is included in fundraising revenue in the statement of operations when the cash is received.

**8. Grants:**

During the year, the Theatre received contributions from various sources as indicated below:

	2020	2019
The City of London	\$ 500,000	\$ 500,000
Canada Council	327,500	240,000
Ontario Arts Council	294,809	290,522
London Community Foundation	5,000	2,000
Private grants	-	18,450
<b>Total grants</b>	<b>\$ 1,127,309</b>	<b>\$ 1,050,972</b>

## THE GRAND THEATRE

Notes to Financial Statements (continued)

Year ended June 30, 2020

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### 9. Commitments:

The Theatre rents equipment under operating leases expiring at various dates to 2025. The Theatre also rents warehouse space with a term ending in 2023. Minimum annual lease payments to the end of the lease terms are as follows:

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2021	\$	97,825
2022		96,628
2023		82,936
2024		13,620
2025		890
	\$	291,899

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As described in note 3, the Theatre pays rental charges to the Foundation, but since there is no lease agreement between the parties, no amount has been included in the minimum annual lease payments disclosed in the table above. The amount is determined annually based on ticket sales volume and accordingly is variable from year to year.

### 10. Contingency:

During the year, the Theatre had provided a letter of guarantee to the Canadian Actors' Equity Association in the amount of \$120,000 (2019 - \$60,000), expiring on February 1, 2021.

### 11. Financial risks:

(a) Liquidity risk:

Liquidity risk is the risk that the Theatre will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Theatre manages its liquidity risk by monitoring its operating requirements. The Theatre prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. The Theatre has access to a \$750,000 operating credit facility. The risk exposure has increased from 2019 due to the COVID-19 pandemic. This increased risk is partially mitigated by business interruption insurance that the Theatre expects to continue to access during the 2021 fiscal year.

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Theatre is exposed to credit risk with respect to the accounts receivable. The Theatre assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. There has been no change to the risk exposure from 2019.

# THE GRAND THEATRE

Notes to Financial Statements (continued)

Year ended June 30, 2020

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## 12. Impact of COVID-19 pandemic:

Effective March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact. At the time of approval of these financial statements, the Theatre has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic:

- Significant shortfall in planned revenues for 2019-2020
- Significant reduction in total attendance and ticket sales due to the 2019-2020 season cancellation in March 2020
- Significant reduction in sponsorship funds related to corporate funding of artistic work and brand development
- Significant reduction of ancillary revenues, most notably other revenues, bar sales, rentals and advertising
- Engaged with insurers to ensure maximum coverage for business interruption losses associated with COVID-19
- Utilized all available government emergency funding (CEWS, Canada Council)
- Implemented cost reduction strategies focusing on retaining only essential services
- Implemented innovative new methods of retaining audience engagement with the potential to create new revenue streams over time
- Use of existing banking facilities to support short term cash shortfalls
- Use of robust budgeting software to build financial models allowing management to understand the financial implications of various decision options and changes in legislation

The ultimate duration and magnitude of the COVID-19 pandemic's impact on the Theatre's operations and financial position is not known at this time. These impacts could include a decline in future cash flows, changes to the value of assets and liabilities, the use of the available operating credit facility, and the use of accumulated unrestricted net assets to sustain operations. The future success of the Theatre requires the ultimate resolution of this pandemic through a vaccine or other means that will safely allow audiences to attend Theatre performances. Though management continues to make best efforts to forecast possible financial scenarios, an estimate of the financial effect of the pandemic on the Theatre is not practicable at this time.